



April 10, 2009

Honorable Denise Moreno Ducheny, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Noreen Evans, Chair
Assembly Budget Committee

Honorable Christine Kehoe, Chair
Senate Appropriations Committee

Honorable Kevin de Leon, Chair
Assembly Appropriations Committee

Section 28.00—Federal State Fiscal Stabilization Funds

Pursuant to the provisions of Section 28.00, Budget Act of 2008, the following report is respectfully submitted.

The Department of Finance (Finance) has received the attached Section 28.00 application from the Governor's Office of Planning and Research (OPR) for the purpose of offsetting state budget cuts with federal State Fiscal Stabilization Funds. This unanticipated receipt of federal economic stimulus funds is intended, according to the United States Department of Education (ED), to stimulate the economy, save and create jobs, and provide immediate resources to the classroom.

Under the *American Recovery and Reinvestment Act of 2009 (ARRA)*, Public Law 111-5 (H.R. 1) approximately \$3.3 billion (or 67 percent) in federal funds are available, however, based on the calculations for restoration, we will be able to distribute \$3.1 billion (\$2.57 billion for K-12 and \$537 million for Higher Education). Funding will be restored to offset reductions that were made to the State Department of Education's local assistance budget, and to both the University of California (UC) and the California State University (CSU) for 2008-09.

According to ED, states will be allocated funding within two weeks of an approved application. The Governor is then required to allocate funds to local educational agencies (LEAs) and institutions of higher education (IHEs). The Governor has delegated this responsibility to the OPR. The LEAs, the UC, and the CSU will be required to submit applications to the OPR for the funds and submit quarterly reports on expenditures and other accountability measures, consistent with federal requirements. Finally, the OPR will establish interagency agreements with the State Department of Education as well as the UC and CSU to ensure the appropriate distribution of funds.

State Fiscal Stabilization Funds must be used by LEAs for any activity that is authorized under the following federal education acts:

- The Elementary and Secondary Education Act of 1965
- The Individuals with Disabilities Education Act
- The Adult Education and Family Literacy Act
- The Carl D. Perkins Career and Technical Education Act of 2006

For IHE's, State Fiscal Stabilization Funds must be used for education and general expenditures, in such a way as to mitigate the need for further fee increases and for other specified uses.

In addition, the ARRA requires that these funds: (1) not increase the amount available for state administration or other state-level activities generally reserved under regular federal grants, (2) be quickly available to LEAs and IHEs in order to avert layoffs and create jobs, and (3) be fully obligated by September 30, 2011.

The OPR received official notification of the availability of additional, unanticipated funds on April 1, 2009 and notified Finance within 45 days of this date.

This request meets the following criteria, as required in subdivision (b) of Section 28.00:

- The funds will be expended on existing K-12 and higher education programs, which is consistent with state law.
- The funds are made available to the state under conditions permitting their use only for the specified purpose, and the additional expenditures proposed would apply to these specified funding purposes.
- Acceptance of the additional funding does not impose on the state any requirement to commit or expend new state funds for any program or purpose.
- The need exists to expend the additional funding during the current fiscal year to stimulate the economy and to save and create jobs.

Finally, we have included internet links to the assurances, guidelines, and reporting requirements included in the ARRA to ensure that LEAs, IHEs, and other interested entities are aware of the various conditions that must be adhered to as a condition of receiving State Fiscal Stabilization Funds. Please see: <http://www.recovery.ca.gov/>; <http://www.ed.gov/policy/gen/leg/recovery/index.html#apps>; <http://www.recovery.gov/>; and <http://www.cde.ca.gov/fg/aa/ar/>.

We concur with the necessity of this change to the approved budget and will be approving the Section 28.00 application not sooner than 30 days from the above date.

If you have any questions or need additional information regarding this matter, please call Ryan Storm, Principal Program Budget Analyst, at (916) 445-0328.

MICHAEL C. GENEST
Director
By:



for ANA J. MATOSANTOS
Chief Deputy Director

Attachment

cc: Honorable Bob Dutton, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable Roger Niello, Vice Chair, Assembly Budget Committee
Honorable Gloria Romero, Chair, Senate Budget and Fiscal Review Subcommittee No. 1
Honorable Wilmer Amina Carter, Chair, Assembly Budget Subcommittee No. 2
Mr. Mac Taylor, Legislative Analyst (3)
Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Mr. Bob Franzosa, Staff Director, Senate Appropriations Committee
Mr. Seren Taylor, Staff Director, Senate Republican Fiscal Office
Mr. Craig Cornett, Senate President pro Tempore's Office (2)
Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
Mr. Peter Schaafsma, Staff Director, Assembly Republican Fiscal Committee
Mr. Ivan Altamura, Chief of Staff, Assembly Republican Leader's Office
Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Honorable Jack O'Connell, Superintendent of Public Instruction
Dr. Glen Thomas, Secretary of Education
Ms. Sharon Taylor, Director, Fiscal and Administrative Services Division, Department of Education
Mr. Robert Turnage, Vice Chancellor, California State University
Mr. Patrick Lenz, Vice President, University of California

icc: BRADSHAW, PROSIO, CAP-OFFICE, FO, OROPEZA, SCHWEIZER, PODESTO,
SWAN, HANSON, LILLIBRIDGE, STORM, LEGARRA, QUASEBARTH, C/F (3),
SUSPENSE FILE

I:\BUDGET ADMIN (YEAR-ROUND)\2008-09\SEC LETTERS\SEC. 28.00\0650 STATE FISCAL
STABILIZATION FUND FEDERAL STIMULUS.DOC

STATE OF CALIFORNIA
SECTION 28.00 APPLICATION
DF-90

Department of Finance
915 - L Street
Sacramento, CA 95814
IMS Mail Code: A-15

Please report dollars in thousands.

DEPARTMENT Office of Planning and Research	ITEM NO./ FISCAL YEAR 0650-xxx-0890 2008-09	NOTIFICATION LETTER TO LEGISLATURE: <input checked="" type="checkbox"/> 30-DAY NOTICE <input type="checkbox"/> REQUEST WAIVER OF 30-DAY NOTICE
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PROGRAM TITLE PER GOVERNOR'S BUDGET:
Education Stabilization Fund

FUNDING (SPECIFY FUND)	CURRENTLY BUDGETED	REQUESTED CHANGE (+) OR (-)	TOTAL
Federal Trust Fund			
0650-501-0890	\$0	+\$537,000	\$537,000
0650-601-0890	\$0	+\$2,565,000	\$2,565,000

(Check appropriate boxes)

- ☒ The funds will be expended for a purpose that is consistent with state law (explain use of funds in Part A below).
- ☒ The funds are made available to the state under conditions permitting their use only for a specified purpose, and the additional expenditure proposed under this section would apply to that specified funding purpose (as supported by explanation for the purpose of the funds).
- ☒ Acceptance of additional funding does not impose on the state any requirement to commit or expend new state funds for any program or purpose.
- ☒ The need exists to expend the additional funding during the current fiscal year (explain in Part B below).
- ☒ This application is provided to Finance within 45-days of official notice of receipt of funds.
- ☐ Explanation of delayed notification to Finance is attached (required if 45-day notification period is exceeded).
- ☐ A copy of the official notice of fund availability is attached to this application.
- ☒ One-time expenditure.
- ☐ Ongoing commitment from this source (if checked, explain under Program Proposal).
- ☐ Matching funds required (if checked, explain under Program Proposal).
- ☐ Expenditure either supplements or supplants an existing state-funded program (if checked, explain under Program Proposal).

PART A: For what purpose will the funds be expended?

The Office of Planning and Research requests authority to spend \$3,102,000,000 in an initial installment of the State Fiscal Stabilization Fund (SFSF) Program within the American Recovery and Reinvestment Act (ARRA) from the U.S. Department of Education (ED) during Fiscal Year 2008-09. Approximately \$2,565,000,000 will be allocated in coordination with the State Department of Education to K-12 local educational agencies and \$537,000,000 to the University of California and California State University for the purpose of restoring to the 2007-08 level. These funds will help ensure that local educational agencies and public institutions of higher education have the resources to avert cuts and retain teachers and professors.

PART B: Explain the need to expend the funds in the current fiscal year, including the consequence of waiting until budget year to expend the funds:

Given California's current economic climate, it is necessary to follow ED's directive to obligate and disburse these funds in 2008-09. The overall goals of the ARRA are to stimulate the economy in the short term and invest in education and other essential public services to ensure the long-term economic health of the nation. The ED urged the state to move rapidly to develop plans for using these funds, and to promptly begin spending funds to help drive the nation's economic recovery. Waiting until the budget year to expend these funds could give the ED the impression that the state is not willing to cooperate fully with the ARRA's goals and possibly discourage the disbursement of the second installment of SFSF Program funds expected in the fall.

PROGRAM PROPOSAL (Attach additional information as necessary)

TITLE: EDUCATION STABILIZATION FUND	STATUTORY AUTHORITY: (state, federal, as appropriate) Federal
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DESCRIPTION:


The SFSF Program is a new one-time appropriation of \$53.6 billion under the ARRA, which was signed into law by President Obama on February 17, 2009. Of the amount appropriated, the ED will award governors approximately \$48.6 million (California is expected to receive \$5.96 million) by formula under the SFSF program in exchange for a commitment to advance essential education reforms to benefit students from early learning through post-secondary education.

According to the ARRA and related ED guidance, SFSF Program funds are to be allocated to the Governor within two weeks of an ED-approved application for the funds. In addition, the Governor is required by the ARRA and the ED guidance to allocate funds to LEAs and IHEs. The Governor delegated this responsibility to the OPR, which will establish interagency agreements with the California Department of Education, the University of California, and the California State University to ensure the appropriate distribution of funds.

States must use Education Stabilization Funds (81.8 percent of the total SFSF Program funds) to restore state support for public elementary, secondary, and postsecondary education in FY 2009, 2010, and 2011 to the greater of the FY 2008 or 2009 level. Any remaining funds, but only after first restoring state support in FY 2009, 2010, 2011, must be awarded to LEAs on the basis of their relative Title I share. The Government Services Fund (remaining 18.2 percent of the total SFSF Program funds) is reserved for other governmental services or elementary and secondary education will be submitted under separate cover.

JUSTIFICATION:

These funds will help ensure that local educational agencies and public institutions of higher education have the resources to avert cuts and retain teachers and professors. If California does not obligate these funds as specified by the ARRA within two years, the federal government will reallocate the funds by formula to the remaining states.

SUBMITTED BY:		APPROVED BY DEPARTMENT OF FINANCE:	
BUDGET OFFICER:	DATE:	DATE SUBMITTED TO LEGISLATURE:	DATE:
		4/10/09	
DIRECTOR:	DATE:	PPBA:	DATE:
	4-16-09		

STATE OF CALIFORNIA
FEDERAL GRANT REQUEST
DF-24 (REV 03/97)

Department of Finance
915 - L Street
Sacramento, CA 95814
IMS Mail Code: A-15

	DATE 4/9/09
DEPARTMENT Office of Planning and Research	PROGRAM Unscheduled
GRANT TITLE Education Stabilization Fund and Government Services Fund	APPLICATION AMOUNT \$3,829,000

BRIEF DESCRIPTION: *Please attach a copy of the federal register.*

Under the American Recovery and Reinvestment Act of 2009 (ARRA), State Fiscal Stabilization Fund Program, Public Law 111-5 (H.R. 1), approximately \$3.1 will be available under the Education Stabilization Fund to distribute to schools and colleges (\$2.57 billion for K-12 and \$537 million for Higher Education). In addition, \$727 million will be available under the Government Services Fund for variety of state purposes.

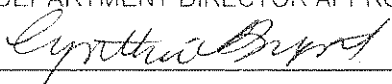
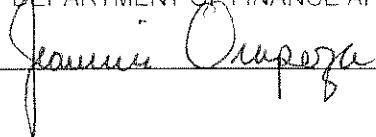
See attached application signed by the Governor and further details.

BUDGET IMPACT:	YES	NO
IS THIS A NEW ACTIVITY NOT INCLUDED IN THE BUDGET?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HAS THIS ACTIVITY EVER BEEN DENIED BY THE ADMINISTRATION OR LEGISLATURE?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
IS THIS A SENSITIVE POLICY ISSUE?	<input checked="" type="checkbox"/>	<input type="checkbox"/>

IF THE ANSWER TO ANY OF THE ABOVE IS YES, PLEASE EXPLAIN BELOW AND SEND TO DEPARTMENT OF FINANCE FOR APPROVAL.

States must allocate these funds quickly to schools and colleges in order to help avert layoffs of teachers and other school and university personnel, other program reductions, as well as potential enrollment access issues or fee increases at colleges and universities. The USDOE has committed to approve applications within two weeks of receipt.

APPROVALS:

DEPARTMENT DIRECTOR APPROVAL 	AGENCY SECRETARY APPROVAL	DEPARTMENT OF FINANCE APPROVAL 
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